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INFO RUFOADA/JAC MOLESWORTH AFB UK
RUEKJCS/SECDEF WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
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DOE FOR GPERSON, CGAY

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TAGS: ENRG EPET SENV NI
SUBJECT: NIGERIA THREATENS FINES ON GAS FLARING; PROPOSES
INCREASED PRICES

¶1. (SBU) Summary: A World Bank workshop on gas flaring in Nigeria turned into a discussion on possible increases in prices for export natural gas. The Nigerian government accused oil companies of dragging their feet on eliminating gas flaring and said stiff fines would be imposed at the start of the year. Oil company representatives countered that the government had failed to fund gas related projects and said eliminating flaring by 2008 would increase the amount of shut-in oil. End Summary.

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Top Nigerian Oil Leaders Show Resolve in Gas Flaring
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¶2. (SBU) The World Bank (WB) sponsored a one day workshop on eliminating gas flaring as part of its Global Gas Flaring Reduction Initiative. Among the twenty Nigerian government participants at the meeting were key petroleum officials including Olatunde Odusina, State Minister for Energy (Gas),
¶H. Odein Ajumogobia, Minister of State for Energy (Petroleum), and Tony Chukwueke, Director of the Department of Petroleum Resources (DPR). No heads of major international oil companies (IOCs) attended.

¶3. (SBU) With the goal of stopping gas flaring in Nigeria in 2008 just around the corner, the government of Nigeria (GON) took a hard-line, as articulated by Odusina. The Minister refused to consider any further delays in the deadline and said by January 1, 2008 gas flaring must be eliminated, "or else." The "or else" was articulated by a DPR representative as an increase in fines for gas flaring to USD 100 per mscf flared and USD 500 per mscf for companies caught misrepresenting the amount of gas flared. Additionally, willful or repeated violations could result in the loss of concessions and the imposition of criminal penalties on company executives.

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IOCs: 2008 Deadline Would Cause Halt in Production
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¶4. (SBU) Charles Adeniji, Chevron's General Manager for Gas Commercialization, acted as the lead spokesman for the IOCs. In his presentation, Adeniji said eliminating gas flaring by 2008 would require the oil companies to stop production from 117 wells until sufficient associated gas (AG) gathering projects came on line in 2012. According to IOC numbers,

that would result the loss of 480 million barrels of oil over the four years.

¶5. (SBU) The IOCs proposed moving the target back to 2012 to allow time for completion of new AG gathering projects. Adeniji cited three reasons for failure to reach the 2008 goal. First, and most important, was the failure of the Nigerian National Petroleum Corporation (NNPC) to fully provide its share of the joint venture funds for AG projects. Also hindering the goal were ongoing security problems in the Delta and a tough domestic content law that resulted in inadequate numbers of qualified Nigerian subcontractors. A DPR representative questioned the IOCs' shut-in numbers on specific details, but claimed the GON was willing to accept shut-in wells. The DPR representative said stopping production on those wells would simply defer income and that would be an "investment in our future."

¶6. (SBU) In a side bar with Econoff, one high level industry participant said he anticipates the terms of the fines will be reduced, but he also expects the GON to make good on its threat to impose them. As they stand now, the proposed fines would make AG flaring wells uneconomical and force the IOCs to cease production from them. During the meeting the IOCs expressed serious concern about proposed criminal penalties. Both sides agreed that the IOCs would have a chance to voice their concerns and provide input as implementing legislation wound its way through the National Assembly.

Nigeria: Export Gas Prices Increases Possible

¶7. (SBU) Talk turned to funding and both sides readily agreed that natural gas pricing was the crux of the problem. Chukwueke of the DPR floated the idea of an increase in the transfer price of export gas to USD 2.50 per mmbtu, up from approximately USD 0.50 per mmbtu. With higher returns to the upstream, the GON hoped to attract more third party investors in gas gathering projects. IOC representatives were enthusiastic, but non-committal. They said higher prices would help in the longer term, but delays obtaining government approval for projects, the difficult work environment, and the complexity of such projects would mean that gas flaring would continue into 2008 unless the IOCs stopped some production.

¶8. (SBU) As part of the future Gas Master Plan, the GONs all encompassing plan for developing a natural gas industry, a NNPC representative described a three tier gas pricing system. Gas prices for domestic industries and the electricity sector would be set well below prices established for gas sales to the international market. DPR and NNPC representatives were adamant that domestic gas prices were not likely to rise in the short term, particularly for gas supplied to the politically sensitive domestic electricity generation market. In the long term however, NNPC predicted more price parity between domestic and export prices as the Nigerian non-oil economy grew.

¶9. (SBU) Both sides debated the current fiscal terms for gas projects in Nigeria. Chukwueke accused the IOCs of taking advantage of terms that permitted offsetting gas project expenses against current oil revenues. Those terms, he claimed, had been intended to promote AG projects, but instead IOCs had used them to build non-associated gas (NAG) projects. New fiscal terms may eliminate that tax advantage. The IOCs countered that long term gas contracts demanded a reliable supply and NAG projects, which tend to be offshore, were developed to augment often unreliable onshore AG sources.

A Committee is Born

¶10. (SBU) Almost as an afterthought, the participants returned to the immediate issue of gas flaring. WB facilitators proposed the idea of establishing yet another committee. This Flare Reduction Committee, to be hosted by the Minister of State for Energy (Gas), would consist of IOC and GON representatives and would coordinate gas flaring initiatives from both sides. Participants acknowledged however that the committee could do little to stop flaring by the 2008 deadline. The WB Country Director Hafez Ganhem wondered if failure to eliminate flaring in 2008 would bring a credibility problem to the IOCs and GON. Participants agreed to include communications strategy as a part of the new committee. (Note: Although the workshop was billed as a meeting of stakeholders, no local community representatives were in attendance. According to one Western NGO representative, none were invited. End Note.)

¶11. (SBU) Comment: Some accommodation on the fines will be reached since neither side wants to see additional wells shut-in. Where this accommodation will take place is another issue. Industry representatives expressed confusion over whether the legislature or the DPR would have the lead on setting penalties. The GON was notably vague in answering.

¶12. (SBU) The security situation in the Delta is just one part of the problem in eliminating gas flaring, and if the workshop is any indicator, not necessarily the most serious. Financing problems, a Byzantine policy making apparatus, and complex and inflexible price controls all contribute to the failure to end gas flaring and retard the development of the natural gas industry in general. Gas related legislation and implementation of the Gas Master Plan will hopefully clear up some of the regulatory and policy uncertainty. End Comment.
HUTCHINSON